

Message Text

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PAGE 01 LISBON 01603 01 OF 02 010936Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
AGRE-00 ITC-01 IO-13 PM-04 H-01 L-03 PA-01 PRS-01
/104 W

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P R 010734Z MAR 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC PRIORITY 0351
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION EC BRUSSELS
USMISSION NATO
DIA WASHDC
USCINCEUR VAIHINGEN GER
USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 1603

E.O. 11652: N/A
TAGS: EGEN, PGOV, PO
SUBJ: REACTION TO ECONOMIC MEASURES

REF: LISBON 1554 (DTG 271442Z FEB 77)

SUMMARY: DEMOCRATIC POLITICAL PARTIES AND PRESS HAVE
GENERALLY SUPPORTED GOP ECONOMIC MEASURES WITH SOME
CRITICISM OF THE DETAILS. COMMUNISTS AND COMMUNIST-
DOMINATED NATIONAL LABOR CONFEDERATION HAVE NOT RESPONDED
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PAGE 02 LISBON 01603 01 OF 02 010936Z

OFFICIALLY, BUT LINE APPEARS TO BE THAT
GOP IS "GIVING IN TO THE RIGHT." THE PRESIDENT HAS
INDICATED HIS STRONG SUPPORT FOR THE GOVERNMENT
PROGRAM AND A WILLINGNESS TO BACK IT WITH THE FULL
WEIGHT OF HIS OFFICE. KEY TO LABOR REACTION WILL BE
PERCEPTION BY UNDEMOCRATIC LEFT OF DEGREE OF
DISCIPLINE AND UNITY OF SECURITY FORCES. END SUMMARY.

1. POLITICAL REACTION: PRELIMINARY REACTIONS

FROM THE MAJOR POLITICAL PARTIES FOLLOWED PREDICTABLE LINES:

-- PS: THE SOCIALISTS ARE BENDING EVERY EFFORT TO EXHIBIT SOLIDARITY WITH THE GOVERNMENT. SOARES HAS SCHEDULED A MAJOR ADDRESS TO THE NATION ON THE EVENING OF FEB 28, AND THE PS MEMBERS IN THE AUDIENCE WILL BE VERY MUCH ON SOARES'S MIND. THE SOCIALISTS HAVE SCHEDULED A MAJOR RALLY IN SUPPORT OF THE GOVERNMENT ON MAR 4 IN LISBON.

-- PSD: THE SOCIAL DEMOCRATS HAVE GIVEN THEIR GRUDGING APPROVAL TO THE AUSTERITY PACKAGE, LABELING THE MEASURES AS INCOMPLETE AND LATE. PARTY LEADER SA CARNEIRO COMMENTED TO CHARGE ON NIGHT OF ANNOUNCEMENT THAT MEASURES SHOULD HAVE BEEN PART OF A LARGER PACKAGE TO STIMULATE ECONOMIC RECOVERY.

-- CDS: CENTER DEMOCRATIC PARTY SPOKESMAN AMARO DA COSTA DESCRIBED THE MEASURES AS INEVITABLE, BUT LATE AND INSUFFICIENT. HE PRAISED THE GOVERNMENT FOR ADOPTING A GLOBAL ECONOMIC PROGRAM, BUT CALLED FOR GREATER STIMULATION OF INVESTMENT.

-- PCP: THE COMMUNISTS HAVE NOT YET REACTED FORMALLY. PRESIDENTIAL AIDES TOLD EMBOFFS, HOWEVER, THAT CUNHAL RAISED A NUMBER OF QUESTIONS ABOUT THE ADVISABILITY OF THE MEASURES DURING HIS FEB 25 INTERVIEW WITH THE PRESIDENT. THE PCP MOUTHPIECE "O DIARIO" IN FEB 28 LEAD EDITORIAL SIGNED THE LIKELY PARTY LINE WHEN IT LABELLED THE DEVALUATION "GIVING IN TO THE RIGHT." "O DIARIO" LIMITED OFFICIAL USE

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PAGE 03 LISBON 01603 01 OF 02 010936Z

LINKED THE DEVALUATION TO THE RECENT RENEWAL OF THE RFE CONTRACT, AID LOANS, AND THE "DELAY IN THE 1.5 BILLION DOLLAR CONSORTIUM LOAN," AND SUGGESTED THAT THE GOVERNMENT HAD SOLD OUT TO THE UNITED STATES.

-- RC: THE REVOLUTIONARY COUNCIL WAS CONVOKED FEB 27 BY THE PRESIDENT TO REVIEW THE GOVERNMENT'S ECONOMIC PACKAGE. THE SPECIAL SESSION WAS TO SPEED UP THE NORMAL RC REVIEW IN ORDER TO ALLOW QUICK PROMULGATION OF THE ECONOMIC MEASURES.

2. PRESIDENT'S STANCE: PRESIDENT'S STAFFERS TELL US THAT EANES IS PREPARED TO THROW THE FULL WEIGHT OF HIS OFFICE BEHIND THE ECONOMIC PROGRAM. SHOULD ANY OF THE PARTIES BALK IN THE ASSEMBLY, THEY WILL BE PROMPTLY CALLED IN BY THE PRESIDENT FOR A STRAIGHT-FROM-THE-SHOULDER TALK.

3. PRESS REACTION: PORTUGUESE MEDIA GAVE EXTENSIVE NEWS COVERAGE TO THE MEASURES -- WITH COMMENTARIES

BY AND LARGE SUPPORTING THE MOVE. ECONOMIC JOURNALIST
FRANCISCO SANSFIELD CABRAL GAVE AN ON-CAMERA
INTERVIEW AND ANALYSIS OF THE MOVE FOR PRIME-TIME
TV AUDIENCE DURING THE WEEKEND.

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PAGE 01 LISBON 01603 02 OF 02 011007Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 1603

HIS REMARKS CHARACTERIZED THE MODERATE PRESS REACTION:
"ALTHOUGH NOT A 'DESPERATE MEASURE' THE DEVALUATION REPRESENTED
A BITTER PILL FOR THE GOVERNMENT TO SWALLOW ...
PORTUGAL'S FINANCIAL SITUATION HAD REACHED SUCH A
DEGREE OF DISEQUILIBRIUM THAT DEVALUATION HAD
BECOME INEVITABLE ..." SOME NEWSPAPERS HIGHLIGHTED
SPECULATION ON PRICE INCREASES, AND PRO-COMMUNIST
"DIARIO DE LISBOA" OF FEB 26 GAVE MAJOR PLAY TO HEAD-
LINE, "WORKERS AND RETIREES WILL TIGHTEN BELTS."
SEVERAL COMMENTATORS TOOK THE LINE THAT DEVALUATION AND
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PAGE 02 LISBON 01603 02 OF 02 011007Z

OTHER MEASURES WERE "TOO LATE." RUI NUNES, WRITING IN COUNTRY'S SECOND LARGEST DAILY, "JORNAL DE NOTICIAS" OF OPORTO, SAID AN EARLIER DEVALUATION WOULD HAVE KEPT DOWN FOREIGN TRADE DEFICITS.

4. PUBLIC REACTION: THERE WAS A NOTICEABLE SURGE OF BUYING ON FEB 26 AS SHOPPERS ATTEMPTED TO STOCK UP BEFORE EXPECTED PRICE RISES WENT INTO EFFECT. SOME MERCHANTS HAD ALREADY MARKED UP PRICES. ON FEB 28, COMMUNICATIONS STATE SECRETARY MANUEL ALEGRE WARNED AGAINST MERCHANTS WHO, HE SAID, HAD ATTEMPTED TO "DISCOUNT" THE VALUE OF CUSTOMER ESCUDOS, AS IF DEVALUATION WERE AN INTERNAL MEASURE.

5. PRIVATE SECTOR REACTION: PRIVATE SECTOR REACTION TO MEASURES HAS BEEN MODERATELY OPTIMISTIC, BUT RESERVED. BANKERS GENERALLY FEEL THAT DEVALUATION WAS UNAVOIDABLE, BUT ASSERT THAT IT WILL HAVE LITTLE IMPACT UNLESS LABOR/MANAGEMENT RELATIONS IMPROVE AND PORTUGUESE INDUSTRY CAN SIGNIFICANTLY INCREASE ITS EXPORTS. OPINION IN PRIVATE SECTOR IS THAT GOP MUST NOW HOLD EXCHANGE RATE RELATIVELY CONSTANT TO MAKE IT CREDIBLE.

6. COMMENT: ALTHOUGH THE COMMUNISTS AND THE COMMUNIST-DOMINATED LABOR CONFEDERATION (CGTP) ARE UNLIKELY TO ACCEPT THE MEASURES GRACEFULLY, THEY WILL BE CAUTIOUS ABOUT THEIR TROUBLEMAKING IN THE FACE OF A DETERMINED PRESIDENT. KEY TO LABOR REACTION WILL BE PERCEPTION BY THE UNDEMOCRATIC LEFT OF DEGREE OF UNITY AND DISCIPLINE IN ARMED FORCES AND POLICE.
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